

Newspaper: Providence Journal

Date: September 19, 2008 A.1

Page: 1

State looks to move \$260 million into safer accounts

State money for such things as student loans, water-related projects and home mortgages is in investment accounts that are not protected by collateral.

BY STEVE PEOPLES
JOURNAL STATE HOUSE BUREAU

PROVIDENCE — A day after scrambling to retrieve more than \$100 million from the failing American International Group, Rhode Island officials disclosed yesterday that hundreds of millions of dollars

invested with other companies may be at risk.

In addition to the AIG funds, state agencies have at least \$260 million — designated for such things as student loans, water-related projects and home mortgages — parked in investment accounts that are not protected by collateral.

Should those investment firms experience credit problems similar to AIG and there is no immediate sign they will — Rhode Island could lose its money.

"We've got to, in an abundance of

caution, protect the taxpayers on

in a whole new world."

Indeed, a "SWAT team" of financial experts representing the governor, the state treasurer and the General Assembly gathered in the State House yesterday to chart a new course of action in a financial system that has been turned on its head.

Just Monday, it appeared as though Rhode Island might lose access to nearly \$140 million locked in AIG accounts known as "guaranteed investment contracts." The money, which wasn't protected by collateral,

SEE FUNDS, A7

projo.com

Your turn: How do the latest Wall Street developments affect you? Neil Downing, the Journal's MoneyLine columnist, will host a live chat with projo.com readers today at noon. To participate, go to projo.com/chat.

Page 1
of 2

Funds

Continued from Page A1

was needed to finish major construction projects such as the capital city's highway relocation project dubbed the "Iway."

AIG a few weeks earlier had been considered an investment as safe as the U.S. Treasury, according to General Treasurer Frank T. Caprio.

The breakup forced state leaders to re-examine the use of similar investments across government. State agencies, including "quasi-public" groups that manage public dollars, generally use the accounts to stash bond revenue for major projects.

"What we're doing through the SWAT team is assembling all the contracts from the quasi-publics," Caprio said. "We're following the markets as the rest of the financial world is, and if there is any issue with any of these entities we'll be prepared to act."

The governor's budget office released data yesterday showing that state agencies currently have at least \$740 million invested in guaranteed investment contracts, or similar accounts. Much of that money is guaranteed by

collateral, which is in many cases, accounts posted by the financial institution.

But at least \$260 million is not, according to the governor's budget office.

"I'm not concerned [about the \$260 million] as we sit here today, but...we're talking about extraordinary times," Caprio said. "We're not planning on sitting back and seeing something happen."

Caprio contacted the heads of the agencies that control the money considered at risk.

Neither the treasurer nor the governor can force quasi-public agencies, which have independent boards of directors, to shift the money to safer accounts. And in many cases, the state cannot change the contracts, which are fixed for period of time barring a substantial drop in the investment firms' credit rating.

Carcieri last night urged all state agencies to move the unprotected money as soon as possible.

"Where we can move them, I think we should," he said. "If it requires a board vote, get a board meeting and get that vote."

The agencies at risk include Rhode Island Housing, which has more than \$70 million for developments and mortgages in unse-

cured accounts spread across financial institutions such as GE Capital Corp. and HSBC Bank.

Also, the Rhode Island Student Loan Authority has \$49 million scheduled to be distributed in student loans before January. But the money is in unprotected accounts with Transamerica Life Insurance Company.

The Rhode Island Clean Water Finance Agency has \$154 million invested with Citibank, Transamerica, and New York-based Financial Security Assurance Inc.

It is unclear what the state will do with approximately \$140 million that had been invested with AIG until this week.

The company agreed on Tuesday, after two days of wrangling, to wire the money back to Rhode Island in the coming week. AIG conceded only after the federal government announced an \$85-billion bailout plan.

Caprio suggested that the funds would be moved into an account backed by collateral, although that decision has not been finalized.

The choice of where to park bond money is not as simple as it may seem.

If state agencies choose an unprotected account with a highly-

rated company—as was the case with AIG—agencies generally receive a higher interest rate, and therefore make more on the interest. In some cases, construction projects are financed in part by the higher interest payments.

The investment accounts backed by collateral, however, generate lower interest payments, but are considered perfectly safe.

Should the state shift all \$260 million to secured accounts, state agencies could lose roughly 2 percent on the investments, or around \$5 million over the course of the year, according to Caprio chief of staff Mark Dingley.

"There definitely would be consequences," he said.

The treasurer's office will continue gathering contracts and recommend a course of action for each agency in the coming week, according to Dingley.

Carcieri, meanwhile, dismissed interest losses as a valid concern in the current climate.

"Right now my message would be that I'm less concerned with the interest rate, more concerned about the safety and security of the money," he said. "This is a time to be risk averse, clearly."

speoples@projo.com / (401) 277-7513

Page 2 of 2